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Turkmenistan

Retail Food Sector

Market Brief

2000

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Report Highlights:

Turkmenistan is a small market where Russian food products are preferred but cheaper Iranian items do well. Per capita income is low and stagnant, due to a moribund economy, leaving only a few niche opportunities for U.S. products at the moment. Local production of processed foods is limited, as the sector has weak marketing skills and is cash-starved. The HRI food service sector is quite small and undeveloped, only a few top hotels and energy-related industries seek global-standard food preparation and service.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Ankara [TU1], TX

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SECTION I - EXECUTIVE SUMMARY

The food marketing system in Turkmenistan revolves around the bazaar, where 98% of food items are marketed. It is the place where everyone shops and where anything needed can be found. The neighborhood corner shops and the corner kiosks in the cities cover a small portion of immediate-need purchases, and the Consumer Association shops sell alcohol and some staples like flour, sugar, and sausage to rural and less affluent customers, but most food purchases are done at the bazaar. There are a few speciality shops in the capital city, oriented towards the affluent shopper, but there are very few of these and their market share is minimal. Frozen and chilled items are extremely limited, due to a very underdeveloped, expensive cold-chain. Coolers have only just appeared in the last few years in the bazaars.

The economy suffers from a shortage of available foreign exchange which has crippled business development in recent years. Incomes are quite low and stagnant. Official minimum wage levels were doubled in December 1999 to \$77 per month for government officials and to \$96 per month for the private sector. This is at the official exchange rate of 5,200 manats to 1 US dollar, but the curb rate of exchange is about 15,500 manats to 1 US dollar. Most imported items are priced off the curb rate, making it very difficult for the average person to regularly purchase imported items in any quantity. Conspicuous consumption is not popular here - people still fear government taxation of wealth, so extravagant purchases are not common and luxury items, including foods, are scarce. Expenditures on food take up close to half of the average person's disposable income. The Turkmen economy is moving quite slowly from the government controlled "command" market to an open, competitive environment. Land privatization has been slow to be adopted and other aspects of the economy are also slow in seeing reform.

The Government of Turkmenistan is attempting to lure investment in the small food processing sector, which has severely deteriorated since independence. The President has announced a food self-sufficiency drive that is intended to bring complete self-sufficiency in most food items by 2003 and investment in this sector is keenly sought. Unfortunately, the business environment is fraught with major difficulties that discourage most western investment. Contracts are hard to enforce and the stability of laws and regulations is problematic. Turkish businessmen have come to Turkmenistan and are the leading investors. The only modern supermarket/department store in the country is Turkish owned and operated.

The HRI sector is quite underdeveloped. The few oil and gas production facilities in the country are serviced by large international catering firms, but just about everyone else in the HRI sector is sourcing locally and doing the procurement, preparation, and presentation themselves.

The Government of Turkmenistan does not assess tariffs, but does levy excise taxes, which are relatively inexpensive compared to other FSU states. Additionally, all trade transactions must be registered with the State Commodity and Raw Materials Exchange Board, a clearinghouse of sorts which also charges fees of both importer and exporter for each sales contract.

Successful selling of niche products in Turkmenistan will require a Turkmen partner or agent who has the ability to overcome the ever present business environment uncertainties.

Turkmenistan Food Market “Snapshot”

ADVANTAGES	CHALLENGES
Turkmen appreciate and desire Western products	Western imports are too expensive for the average Turkmen consumer to purchase
The first modern supermarket has opened in the major city and it is preferred by those who can afford to shop there	Retailers “buy” goods on consignment, shifting market risk to the suppliers
Food is a major expenditure for all Turkmen and they are discriminating customers as a result	Infrastructure is extremely limited and very underdeveloped, with little improvement foreseen until the energy sector brings in the anticipated large revenues
Imported processed food stuffs are the norm for Turkmen, with little local production currently available	With limited revenues, the Turkmen Government is very aggressive in assessing duties and business taxes
Natural gas exists in very large amounts, the heart of the country’s economic potential	Turkmen perceive Russian products as best in quality, and prefer these familiar tastes
First Mover Advantages will accrue to the intrepid exporters willing to work in a changing environment	Contracts are not sacrosanct and laws unpredictable, so choice of local contact/agent is a crucial decision
There are more retail outlets and many more varieties of products available than just a few years ago - Western items are in the market	Turkmenistan’s economy languishes, and access to foreign exchange is a common problem for many importers

SECTION II - MARKET STRUCTURE AND SUB-SECTOR PROFILES

Supermarkets

Retailer Name/Outlet Type	Local or Foreign Ownership	Annual Est. Sales (\$mil.) For 2000	Number of Outlets	Locations	Type of Purchasing Agents
Yimpas	Turkish	\$2 million in food items only (store just opened 2/19/00)	one	Ashgabat	90% direct imports, balance sourced from local producers (meat) or from Iran (fresh produce)

There is only one modern supermarket in the whole of Turkmenistan, a Turkish-owned Yimpas department store with a large food supermarket on the ground floor of the complex. A \$15 million investment, it establishes a new level of retailing in the country. There are about 10 other small mini-mart sized stores passing as supermarkets in the capital city. Each of these is quite limited in floor/shelf space and offers consumers minimal choices among product items. Some of these stores specialize in certain countries' products, usually Russian or Turkish or a hodge-podge of international items from the Gulf. Between them, a consumer interested in a particular item should be able to find it, but at a price and then only at the one store. For instance, at the time of the writing of this report, other than the Yimpas store, there was only one other store in the country selling fresh frozen processed food items (vegetables and some pasta dishes). The other four major cities in the country have between 30 to 40 smaller super/mini markets between them. Due to the increasing difficulties in obtaining foreign exchange, all of these stores have seen wildly fluctuating stock levels from season to season.

Along with private sector stores, there are Consumer Association stores and State Food Industry Association stores which provide goods at inexpensive prices. These stores in the past have been targeted at specific factories populations, or are in smaller towns and villages, to ensure these populations had some choice of staple items. Essentially these stores are holdovers from the Soviet system. Their nature is to offer extremely limited supplies of a few staples such as meat, flour, bread and sugar and a selection of the very inexpensive local alcohol, usually in a cavernous space with all goods arrayed on shelving out of the customer's reach. Store staff fetch the desired items for customers, but overall service is rudimentary. Flour is the only item sold at subsidized prices, about 2 cents per kilo (100 manats) at the official rate of exchange.

Convenience stores

In the larger cities, usually located in neighborhoods on corners, there are small privately-owned stores providing a mix of fresh food items, processed foods, and a range of consumer housewares, clothing, stationary, and gifts. These are the closest to being true convenience stores, with goods at-hand and self-service the rule. After these stores come the corner kiosks, where customers can obtain consumables, some food items, mostly processed, and cigarettes, alcohol, and other daily necessities. These are mostly scattered throughout the residential sections of cities and towns. Other than these few stores and the bazaars, there are no other places to shop for food items.

Bazaar (traditional)

The bazaar reigns in Turkmenistan as the one place where everyone shops almost daily and where everything for sale can be found. Probably 98 percent of the food sold in Turkmenistan passes through the various bazaars. Each major city has at least two or three of these, smaller towns and villages one or two, usually offering a similar selection of goods. These bazaars are most often administered by city authorities, but recently privately run bazaars have opened in some of the larger cities. Ashgabat, the capital, has eight retail bazaars and three wholesale bazaars, one of which is the famous "Tolguska" market outside the city. The Tolguska, or "Push" market, is a weekend market a few kilometers outside Ashgabat that is known regionally for its frenetic character. Literally all types of new and used goods and animals are available and many thousands of Turkmen descend upon it on Sunday morning to get whatever they might desire. Another wholesale market appears briefly each morning at the Ashgabat railway station when the trains arrive carrying villagers bringing fresh products for sale from outside the capital city. Each section of the capital city has at least one bazaar. The bazaars consist of rows or squares of counters or tables that retailers work from, under a semi-enclosed space. Around the inside perimeter of the bazaar are shops selling specific types of items, usually meat or processed foods and consumer toiletries. Selling spaces are rented from the various bazaar authorities, who also provide the measuring scales and the health certificate which permits each seller to operate. Each retailer is free to sell whatever they deem profitable and the sellers of like goods generally congregate in the same places, in the habit of the Middle East.

Most of the bazaar retailers purchase their goods either off wholesalers located in the wholesale markets or from wholesale traders who visit the bazaars early in the morning with their supply trucks. Some traders travel to Russia and other nearby countries to get their goods in what is known as the "suitcase trade," where items are brought in without any duties paid by the carriers. These goods often pose problems for some legitimate international brands, in that the legitimate brand distributors have to sell at a premium to the smuggled items. Bazaar items are sold by the piece or most often by weight. Bazaar hours follow daylight hours and depending on their size and individual characteristics, may close by late mid-day. The prices at the bazaars are usually the best retail prices available, with small differences between bazaars around town. Buying directly at the wholesale bazaars gets consumers the best pricing available, but these markets are not near most living areas. Some bazaars are known for certain characteristics, like cheapest prices, greater goods variety, fresh flowers, vegetables, and fruit, etc.

Wholesalers/Traders

Almost all retailers procure goods from wholesale traders who either import themselves from the Gulf, Russia, Turkey, or from Iran, or who buy off other importers or from the local food producers. The wholesale traders obtain items on consignment, and resell to the retailers. Iranian traders travel to a number of Turkmen cities to sell products directly to retailers at the bazaars. The market is very fluid, with wholesalers/traders generally following whatever might be selling well in the market and switching between products frequently, depending on what is selling well and what is available.

Food Processing and HRI Food Service Sectors

Normally covered in separate reports, these two sub-sectors of the agricultural sector are weakly developed in Turkmenistan and will be covered here briefly.

Food processing in Turkmenistan is in a state of severe decline from the peak years just before the end of the Soviet Union. Meat, dairy, fruit, vegetables, grains, and alcohol are the primary items processed. There are some international aid projects which have established a few new processing operations, but these are not producing yet at commercial levels. Marketing skills are rudimentary and just beginning to develop in Turkmenistan. Almost all existing processing plants are in need of capital investment and working capital funds. The existing operations work at very low levels, very sporadically, due to input shortages and currency shortages. The Coca-Cola bottler, an international joint-venture, has a recently refurbished bottling plant serving the Turkmenistan market that is one of the very few international brands produced in Turkmenistan. According to the Food Industry Association of Turkmenistan, there are 90 total food processing facilities, 45 of which are fully privately owned, 11 more are public-private joint ventures, while the remainder await privatization. Of the private operations, there are 15 dairies, 12 meat processors, 6 winery-distilleries, 4 confectionaries, 3 beer & soft-drink producers, 3 vegetable oil plants, 1 mineral water plant, and 1 baby food plant. The Bread Products Association reports there are 15 wheat mills, 20 bakeries, and 2 rice processing plants. The government is tendering for 41 new plants (20 meat processing plants, 15 dairies, and 6 breweries) in a number of locations throughout the country. It is also interested in refurbishing the Gundogar Confectionary plant in Ashgabat and in opening a new fruit juice plant there as well. For more information about these opportunities, contact the U.S. Embassy in Ashgabat.

The Hotel, Restaurant, and Institutional Food Service sector is a very small one, with almost no international chains operating within the country. Sheraton is the only international chain in Ashgabat, all other hotels are independently owned. There are probably 20 large hotels (40+ rooms) in the whole of the country. There are no resorts in the western sense, but a popular summer holiday is to go to the seaside in Turkmenbashi, a port and oil refinery town on the Caspian sea. All restaurants are non-chains and source locally on the market. There are a few international caterers serving the energy trade in up-country locations, Catermar being one, but most restaurants, hotels, and institutions buy supplies locally and have their own staff prepare and serve the meals. An Italian company has the concession supplying the President's residence, palace (place of work), and one hotel owned by the President's son. This particular firm brings in all processed items direct from Italy and sources meat and some dairy products and some produce locally.

Additional Market Factors

SCRME

An additional factor to consider when doing business in Turkmenistan is the unique entity known as the State Commodity and Raw Materials Exchange, which has control over all import and export transactions. All trade contracts must be registered here and registration fees of 0.2% of transaction value must be paid by both the buyer and seller. SCRME sets the wholesale selling price, requires goods to be in-country before they can be paid for, and can auction off goods if there is no buyer arranged prior to shipment. No trade transaction can take place legally without the involvement of the SCRME.

Customs

Clearing customs can be complicated and a lengthy process. Required documents for clearance include the trade contract registration with SCRME, which should include quantity and value information; a bill of lading with similar information in Russian or English; a customs cargo declaration form also in Russian or English; a conformance certificate that confirms quality of delivered goods that is available from the State Chief Standards Inspectorate after 7 to 30 days and which costs up to 0.5 percent of goods' value; a certificate of origin; and a Central Bank document which confirms the importer's possession of a money transfer for purchasing goods or an irrevocable L/C. The customs fees are low, an aggregate sum of a customs service fee of 0.2 percent of contract value and an additional 20 percent of the VAT assessed on the customs service fee.

Sanitary

Imported food products need a Turkmen sanitary certification issued by the State Sanitary and Epidemiological Inspectorate. Radiological, radio chemical, and chemical tests are conducted on import samples. Goods are held at port until the samples clear.

Labelling

Labels should be in Russian and English at the minimum. They should have the producer's name on individual and outside packaging, plus the name and address of the exporter.

Halal Preparation

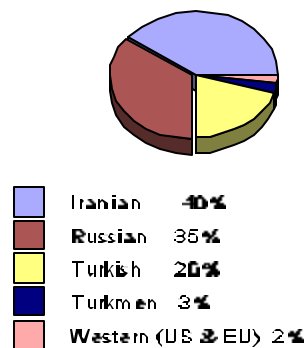
While a majority Muslim culture, Turkmenistan does not require Halal preparation. According to the shipping industry, goods moving through Iran are better off with Halal certification, as Iran requires it and could conceivably turn back a non-Halal shipment regardless of end destination.

SECTION III - COMPETITION

Turkmenistan's 3000 to 3500 food outlets (bazaars, supermarkets, corner shops, government shops, and kiosks) feature imported Iranian, Russian (and Ukrainian, which is not distinguished as different from Russian), and Turkish products, with a limited number of U.S. and European products available (mostly sourced in the Gulf or in Turkey). Other than in poultry and soft drinks, U.S. products have little penetration of the Turkmen market. Russian products are found in all the bazaars and in speciality shops and are preferred by everyone. It is a common perception here that Russian goods are the best quality and that Russian farms are producing ecologically sound and pure products. These are the familiar products for this market and Russian television, with ads for Russian products, reinforces this preference. Iranian products are the most plentiful, due to their low prices, but are not preferred because of their generally poorer quality. (Better quality Iranian products are found in the Ukraine, Kazakhstan, and other CIS markets, where income levels are higher.) Turkish products are the next most widely found goods after Iranian and Russian. Turkish products have been penetrating the market due to the number of Turkish businessmen active in Turkmenistan. Turks are the largest expatriate population in the country and the major investors.

Turkish products are the next most expensive items, after European or American products.

Processed Foods Market Share



There are few Turkmen processed products in the market, mostly sausages, processed fish, alcoholic beverages, Korean-type prepared pickled vegetable salads, dairy products, breads and pastries. Fresh produce is locally sourced in-season and comes from Iran during the off

season. Meat, mostly mutton and lamb, beef and a small amount of pork, and fish and limited amounts of poultry are locally produced. A lack of well-developed cold store chain facilities, together with limited per capita income, limits the import competition in meat proteins, other than in chicken. It also limits the development of other frozen and chilled items. Existing cold-storage facilities are old Soviet-era technology and are expensive to rent. Most importers prefer to sell all of their stock of goods immediately, rather than renting cold store space for later sales.

Of Turkmenistan's total official imports, food items constitute about 19 percent, with the leading items being sugar, meat and meat products, dairy products, flour and other grain products, and some alcohol, fruits, vegetables, and confectionary items.

Since most business is done out of the bazaars, by small retailers, there is very little advertising and other promotional activities. Some international brands of soft drinks and cigarettes and other consumables products (toothpaste, etc.) are the only commonly advertised items.

The primary shipping routes are either through Iran (Banda Abbas), from the Gulf, or through the port city of Turkmenbashi on the Caspian Sea. Trucks are generally more economical and flexible than rail shipments. A small amount of goods arrive in Turkmenistan from Uzbekistan via the border city of

Charjeau, now known as Turkmenabat. Ashgabat is the primary trading hub for the whole of the country. Goods arrive here in bulk and are broken down and reshipped in smaller amounts to the other large cities. Some Iranian goods move directly to their end destination in other cities, but most items first stop in Ashgabat.

SECTION IV - BEST PRODUCT PROSPECTS

Due to the flat economy, stagnant incomes, and stalled business development resulting from the lack of a take off in the energy sector and slow adjustment to an open market environment, opportunities are limited for introducing many new items at the time of the writing of this report. Any potential volumes will be small and inexpensive prices will be the key to selling here. Even in this market, though, niches can be developed with the proper Turkmen contacts. EU and US products are perceived of as having excellent, if unfamiliar, quality. The majority of imported items are sold on consignment to wholesalers, who then resell to retailers in the traditional bazaars. Some items having promise include chicken leg quarters, butter, sugar, rice, processed meat items, and cigarettes. Frozen butter is one of the most promising niches, as Turkmen prefer to cook in butter instead of oil as in other parts of the former Soviet Union. Small unit package size is very important, as Turkmen consumers generally buy everyday for immediate consumption due to their low incomes.

For any item being considered for this market, a competitive price is the primary factor. With no sizeable middle class, a world-competitive price is key for selling in Turkmenistan. Both the luxury and mass markets will stay quite limited in size as long as the energy sector remains underdeveloped and weak. Much of the imported international products on Turkmen shelves have been brought in via the Gulf, through Iran by truck. It can take as long as three months or more for goods to arrive in Turkmenistan from the United States and transport costs can be expensive relative to the value of the goods and the potential selling prices. As with many other former Soviet states, Turkmenistan has a shifting environment of regulations, tax codes, and fees. The President of the country often personally reviews business deals of small size. Contracts can be hard to enforce and major laws can change dramatically without prior notice. A local partner/agent/representative with excellent government relations can help to overcome difficulties of this sort.

SECTION V - POST CONTACT AND OTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting American agricultural products to Turkmenistan, please contact the office listed immediately below:

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HOMEPAGE: www.usis-ankara.org.tr

For further information on other agricultural reports for Turkmenistan or other countries around the world, please refer to the FAS HOMEPAGE, URL address of **<http://www.fas.usda.gov>**.

Other important sources of updated information on the business climate in Turkmenistan include the U.S. Foreign Commercial Service's "BISNIS" website: **www.bisnis.doc.gov**, and the U.S. Embassy's site, at **www.usemb-ashgabat.usia.co**. Both sites have comprehensive information on contacts, the latest customs information, the country's business culture, hotel information, et cetera.

End of report.